

Legislative Audit Division

State of Montana



Report to the Legislature

April 1999

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 1998

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Department of Revenue

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This report contains six recommendations for improving the department's compliance with state law and policy and a disclosure issue relating to Unemployment Insurance cash transfers. The recommendations relate to:

- ▶ Coal severance tax and accommodation tax distributions.
- ▶ Unemployment Insurance accruals.
- ▶ Expenditure abatements.
- ▶ Operating transfers.

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Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 1999, will be issued by March 31, 2000. Copies of the Single Audit Report, when available, can be obtained by contacting:

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James Gillett, Financial-Compliance Audit

April 1999

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Revenue for the two fiscal years ending June 30, 1998. We issued a qualified opinion on the financial schedules of the department. Included in this report are six recommendations concerning coal severance tax and accommodation tax distributions, unemployment insurance accruals, expenditure abatements, and operating transfers. This report also includes a disclosure issue related to unemployment insurance cash transfers. The department's response is located at the end of the report.

We thank the director and staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long, sweeping horizontal line extending to the right.

Scott A. Seacat
Legislative Auditor

Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1998

Department of Revenue

Members of the audit staff involved in this audit were Laurie Barrett, Jeane Carstensen-Garrett, Laurie Evans, Wayne Kedish, Jim Manning, Susan S. McEachern, Paul J. O'Loughlin, Lorry Parriman, and Jennifer Solem.

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Appointed and Administrative Officials

Central Management

Mary Bryson, Director

Dave Woodgerd, Chief Legal Counsel

Process Leaders

Jeff Miller, Policy and Performance Management

Judy Paynter, Tax Policy and Research

Mike Boyer, Information Technology Division

Lynn Chenoweth, Resource Management Division

Neil Peterson, Customer Service and Information Processing Division

Don Hoffman, Compliance, Valuation and Resolution Divisions

Department of Revenue

This report contains the results of our financial-compliance audit of the Department of Revenue (department) for the two fiscal years ended June 30, 1998. The previous audit report contained seven recommendations to the department. The department implemented five and did not implement two of the prior audit recommendations.

This report contains six recommendations directed to the department.

We issued a qualified opinion on the financial schedules presented in this report. This means the reader should use caution when relying on the presented financial information and the supporting detailed information on the Statewide Budgeting and Accounting System.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department establish procedures to value and tax all taxable intangible property as required by state law. . Page 6

Agency Response: Concur. See page B-3.

Recommendation #2

We recommend the department work with Board of Investment's personnel to ensure all investment income from the coal severance tax income fund is recorded as required by state law. . Page 8

Agency Response: Concur. See page B-3.

Recommendation #3

We recommend the department reimburse the Montana Historical Society \$45,000 for the Fort Peck Interpretive Center grant. . . . Page 9

Agency Response: Concur. See pages B-3 & B-4.

Recommendation #4

We recommend the department record revenue accruals in compliance with state accounting policy. Page 10

Agency Response: Concur. See page B-4.

Report Summary

Recommendation #5

We recommend the department follow state accounting policy concerning expenditure abatements. Page 10

Agency Response: Concur. See page B-4.

Recommendation #6

We recommend the department comply with state accounting policy related to the use of operating transfers. Page 12

Agency Response: Concur. See page B-4.

Introduction

Introduction

We performed a financial-compliance audit of the Department of Revenue for the two fiscal years ended June 30, 1998. The objectives of our audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Obtain an understanding of and, if appropriate, make recommendations for improvement in the internal and management controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine if the department's financial schedules present fairly the results of its operations for each of the two fiscal years ended June 30, 1998.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing recommendations contained in this report.

Department Organization and Functions

The Department of Revenue was created by the Executive Reorganization Act of 1971. The department's primary responsibilities are to ensure compliance with state tax laws; to assist taxpayers in fulfilling their obligations to the state, and to maximize the collection of taxpayer funds by maintaining an efficient and timely mechanism for collection and deposit of revenues.

During the audit period, the Department of Revenue began a reorganization called Project METΔ, designed to significantly improve the manner in which the department conducts its business. Department divisions will no longer be organized around tax types, but instead around common business processes.

Introduction

The following is the current organizational structure of the Department of Revenue:

The **Director's Office** advises the Governor on all matters affecting the department, recommends changes to Montana tax laws and policies, provides policy direction to all department processes, and develops and presents the department's biennial budget. The director's office is composed of four sections:

1. **Dispute Resolution** reviews, facilitates, and resolves taxpayer disputes internally through a variety of means, including mediation.
2. **Office of Legal Affairs** supervises the overall legal efforts of the department, supervises the staff attorneys, and maintains liaison with retained attorneys.
3. **Policy and Performance Management (PPM)** provides policy direction, strategic planning, administrative rules, and performance management for department operations. It measures and facilitates the performance of department processes and ensures that revenue-related legislation is implemented efficiently.
4. **Tax Policy and Research (TPR)** is responsible for estimating state general fund revenues, coordinating Department of Revenue legislation, preparing fiscal notes for most tax policy legislation, and reviewing all legislation which is related to revenue. TPR also analyzes economic and statistical data, compiles department research data, and conducts revenue related research for the department and for external stakeholders.

Divisions

Information Technology (IT) provides services in the area of data support, applications support, technology support, and user assistance, each of which enable the department to meet its business objectives.

Resource Management (RM) integrates human resources, accounting, facilities, internal and external customer education, and liquor distribution into a division that focuses on service and support to the department and the public.

Compliance, Valuation, and Resolution (CVR) oversees audits and measures to verify tax-paying entities are in compliance with the laws.

CVR also establishes values of property for purposes of taxation. The process will be located throughout the state in seven regions to provide customer service.

Customer Service Center (CSC) combines the document and information processing, accounts receivable and collections, and customer intake processes into a single business unit designed to collect revenue and process documents for the department and other agencies. This process is divided into three subprocesses including:

1. **Customer Intake** is the initial contact point for customers and is the central point for the development and design of “user friendly” forms and instructions. Customer Information Consultants will be supported by up-to-date technology, enabling them to answer customer inquiries for all tax types.
2. **Document & Information Processing** is responsible for electronic commerce, document capture, remittance processing, records management, direct deposit of cash receipts and revenue, and mail distribution.
3. **Accounts Receivable & Collections** is a single point of contact for debtors and is responsible for consistent delinquent account collection and enforcement activities.

Prior Audit Recommendations

Prior Audit Recommendations

The financial-compliance audit report of the department for the two fiscal years ended June 30, 1996, contained seven recommendations. We determined the department implemented five and did not implement two prior audit recommendations as discussed below.

In the prior audit report, we recommended the department implement a system to ensure agricultural lands are valued at 100 percent of productive capacity as required by state law when each revaluation cycle takes effect pursuant to section 15-7-111, MCA. Chapter 463, Laws of 1997, amended section 15-7-111, MCA, giving the department until January 1, 2007, to start reappraisal of certain taxable property including agricultural lands. As a result, we make no further recommendation at this time.

Intangible Property

In the prior audit report, we recommended the department tax intangible assets including patents, copyrights, commercial real franchises, and liquor licenses in accordance with state law. The Constitution provides that property is to be taxed in the manner provided by law, and the legislature has established a broad system of taxation. All property is subject to taxation unless specifically exempt. Section 15-1-101, MCA, defines the term "property" to include "...franchises, and all other matters and things, real, personal, and mixed, capable of private ownership." While not specifically identified in a tax class, the law provides that franchises and other intangible property "capable of private ownership" should be taxed as class eight property.

Currently, the department is not taxing all of these assets although, based on direction from the Revenue Oversight Committee, the department has identified a list of intangible property types. In addition, legislation has been introduced in the 1999 Legislature to exempt all intangible property from taxation except for five types of intangible property that would be taxable. The proposed legislation exempts from taxation the first million dollars or less of intangible property for five types of taxable intangible assets identified by the department. Unless a law is passed exempting intangible property from taxation, the department must establish procedures to value and tax all taxable intangible assets.

Prior Audit Recommendations

Recommendation #1

We recommend the department establish procedures to value and tax all taxable intangible property as required by state law.

Findings and Recommendations

Compliance

During the audit, we reviewed the department's compliance with state laws and regulations. The following two sections discuss instances in which the department did not comply with state law.

Permanent Coal Severance Tax Trust Investment Earnings

Section 17-5-704, MCA, requires that all income and earnings from the permanent coal severance tax trust funds be deposited to the General Fund. The funds are invested by the Montana Board of Investments (BOI) which inputs transactions recording all investment earnings into the coal severance tax income fund. On a monthly basis, the department distributes and records the investment income recorded in the coal severance tax income fund to the General Fund.

Beginning in fiscal year 1997-98, the state implemented Governmental Accounting Standards Board (GASB) #31. This standard requires the state to recognize as income (or negative income) unrealized market gains and losses on the financial records. Unrealized gains and losses are the difference between the book value and market value of investments on the balance sheet date. Accordingly, BOI personnel input transactions to the Statewide Budgeting and Accounting System (SBAS) to record this income during the fiscal year-end 1997-98 closing process. The difference between book and market value for the permanent coal severance investments at June 30, 1998, was \$29,084,198. Of the total increase in value, \$18,976,468 occurred in fiscal year 1997-98 and \$10,107,730 is attributable to prior years. The department did not transfer this income from the coal severance tax income fund to the General Fund during fiscal year 1997-98 as required by state law.

As a result, we believe users of the department's financial schedules could be misled. The June 30, 1998, Nonexpendable Trust Fund fund balance is overstated and General Fund fund balance is understated by \$29,084,198 on the state's accounting records. Consequently, we issued a qualified audit opinion on the schedules as described in the Independent Auditor's Report on page A-3. The General Purpose Financial Statements for the state for fiscal year 1997-98 were adjusted to correct this error.

Findings and Recommendations

Department personnel said they did not transfer the income to the General Fund because BOI did not record the income until the end of fiscal year-end closing period and also because of some indecision on whether this income should be transferred to the General Fund. This type of income is unique because no cash is associated with the income until the investments are sold. We reviewed the transactions input by BOI personnel and the documents were input very late during the closing process. In addition, there were ongoing discussions with the Governor's Office and the Department of Administration dealing with this issue. Because of these timing issues it would have been difficult for the department to transfer the income from the coal severance tax income fund to the General Fund by the end of fiscal year 1997-98. The department did transfer this income in fiscal year 1998-99. In order to comply with the law, the department should work with BOI personnel to ensure all income is recorded as required by state law.

Recommendation #2

We recommend the department work with Board of Investment's personnel to ensure all investment income from the coal severance tax income fund is recorded as required by state law.

Distribution of Accommodations Tax

The department is responsible for the collection and distribution of the accommodation tax. The distribution of the tax is set forth in section 15-65-121, MCA. This section requires the department deposit \$400,000 each year in the Montana Heritage Preservation and Development Account, which is administered by the Montana Historical Society. This section also required \$45,000 be transferred to the Department of Commerce for a grant to the Fort Peck Interpretive Center. The law specified this one time transfer be made on July 1, 1997, from accommodations tax proceeds. The Montana Historical Society transferred the \$45,000 from its Historic Preservation and Development account. This transfer should have been made by the department directly from the accommodations tax proceeds, not from the Historic Preservation and Development account. Therefore, the department should reimburse the Montana Historical Society \$45,000 from accommodations tax proceeds.

Findings and Recommendations

Recommendation #3

We recommend the department reimburse the Montana Historical Society \$45,000 for the Fort Peck Interpretive Center grant.

State Accounting Policy

The Department of Administration, Accounting and Management Support Division, has established state policy for recording financial activity on the state's accounting system. We noted the following instances where the department did not comply with state accounting policy.

Unemployment Insurance Revenue Accruals

During fiscal year-end 1997-98, the department recorded a revenue accrual of \$391,167 in the unemployment insurance (UI) federal accounting entity. The department accrued revenue so that revenues would equal expenditures at fiscal year-end. The expenditures included accruals of \$233,157 for services performed after June 30 (referred to as "A" accruals).

State policy allows revenue to be recognized when it is both available and measurable. In addition, state policy generally requires federal special revenue accounts to have a zero balance except for the effect of "A" accruals. Revenue from "A" accruals should not be accrued because the money is not available. The department does not receive payment for the UI expenditures until after they have expended the money. Payments for the services for the "A" accruals were not made until after the services were performed in December and January of 1998-99. Therefore, the revenue should not have been recognized as fiscal year 1997-98 revenue. As a result, federal revenue in the special revenue fund is overstated by \$233,157 in fiscal year 1997-98.

Department personnel said they accrued revenues for the total expenditure accrual amount because they believe they had to have an ending fund balance of zero. They receive revenue on a reimbursement basis and based on the expenditures, they believe the revenue accrual is correct; however, it is not in accordance with state policy.

Findings and Recommendations

Recommendation #4

We recommend the department record revenue accruals in compliance with state accounting policy.

Expenditure Abatement

As part of a settlement for a property tax case, a company agreed to reimburse the department for part of expert witness fees that the department had already paid. When the department received the payment from the company, expenditures were reduced (abated) rather than recording revenue.

Department personnel said that the case affected not only past but future revenues because it dealt with the methods the department uses to value property. As a result, the department hired expert witnesses to testify that the method they were using was correct. Personnel said that receiving reimbursement for expert witnesses is not common for the department.

State policy allows expenditures to be abated if they are used for reimbursements of specific items incurred by an agency which are nonrecurring and nonroutine in nature and must be the responsibility of an outside party. Although payment of a specific type of tax enforcement expenditure, such as expert witness fees may be unusual, tax enforcement is the responsibility of the department. As a result, General Fund prior year expenditure adjustments and revenue in fiscal year 1997-98 are each understated by \$110,000.

Recommendation #5

We recommend the department follow state accounting policy concerning expenditure abatements.

Findings and Recommendations

Operating Transfers

State accounting policy designates operating transfers as a means of showing the amounts transferred from one accounting entity to another. The use of operating transfers is important because they prevent counting the same financial activity more than once on the state's financial records. The following sections discuss two instances where the department did not use operating transfers as required by state policy.

Unemployment Insurance

Beginning in fiscal year 1997-98, the Unemployment Insurance tax administration function moved from the Department of Labor and Industry (DOLI) to the Department of Revenue (DOR). The DOLI receives federal funds to administer the Unemployment Insurance Program which are subsequently paid to DOR for performing the tax administration function. Currently, revenues and expenditures are being double counted because both DOLI and DOR record revenues and expenditures for the federal funds received by DOLI that are used by DOR to pay for the tax administration function.

According to state policy, transfers in and transfers out should be used for all interfund transactions except loans or advances, quasi-external transactions, and reimbursements. The payments from DOLI to DOR are interfund transactions. As a result, DOLI should record a transfer out for the funds sent to DOR and DOR should record the receipt as a transfer in instead of revenue.

As a result, federal revenue in the Special Revenue Fund is overstated by \$2,158,255 and transfers-in are understated by the same amount on the state's accounting records in fiscal year 1997-98.

Coal Severance Tax Transfers

Section 15-35-108(3), MCA, requires the department to deposit any unreserved fund balance from the coal severance tax shared special revenue accounting entity at the end of each fiscal year to the General Fund.

In accordance with state law, the department transferred the unreserved fund balance at the end of both fiscal years 1996-97 and 1997-98. The department recorded transfers to the General Fund from the State Special Revenue Fund using residual equity transfers rather than

Findings and Recommendations

operating transfers. Department personnel said they were instructed by Department of Administration personnel to use residual equity transfers. State policy defines residual equity transfers as identifying the amount of nonrecurring or nonroutine transfers of equity between accounting entities. It further defines operating transfers as identifying amounts transferred from one accounting entity to another accounting entity that don't meet the definition of residual equity transfers.

As a result, residual equity transfers in the Special Revenue Fund are overstated by \$2,301,240 and \$931,620 in fiscal years 1996-97 and 1997-98, respectively, and operating transfers are understated by the same amounts on the state's accounting records.

Recommendation #6

We recommend the department comply with state accounting policy related to the use of operating transfers.

Disclosure Issue

Unemployment Insurance Cash Transfers

As mentioned earlier in the report, beginning in fiscal year 1997-98, the Unemployment Insurance (UI) tax administration function moved from the Department of Labor and Industry (DOLI) to the Department of Revenue (DOR). DOR now records UI revenue on its accounting records while DOLI records UI benefit payments on its records. Because no cash transfer was recorded on the Statewide Budgeting and Accounting System (SBAS) to move cash from DOR's accounting records to DOLI, cash transfers out are understated and ending fund balance is overstated by approximately \$58 million each in DOR's Expendable Trust Fund for fiscal year 1997-98. Accordingly, both cash transfers in and ending fund balance are understated in DOLI's Expendable Trust Fund by the \$58 million in fiscal year 1997-98.

As a result, we believe users of the DOR financial schedules could be misled. Because cash wasn't transferred, we issued a qualified audit opinion on the financial schedules as described in the Independent Auditor's Report on page A-3.

DOLI is responsible for recording the cash transfer and a recommendation has been addressed to the DOLI in the fiscal year 1997-98 financial-compliance audit report (98-14). We are disclosing this information because DOR should work with DOLI to ensure the entry is made to properly transfer the cash to clearly reflect the financial relationship between the two departments.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Revenue for each of the fiscal years ended June 30, 1997 and 1998. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

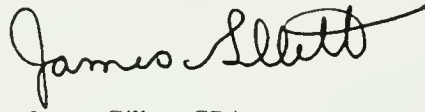
As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The department did not comply with state law and record investment income in the General Fund which resulted in an understatement of direct entries to fund balance of \$10,107,730 in the General Fund and an overstatement of direct entries to fund balance in the Nonexpendable Trust Fund of the same amount in fiscal year 1997-98. In addition, budgeted transfers-in are understated by \$18,976,468 in the General Fund and nonbudgeted transfers-out of the Nonexpendable Trust Fund are understated by the same amount in fiscal year 1997-98.

In addition, because a cash transfer was not recorded for the combined Unemployment Insurance accounting entity as required by state policy, cash transfers out are understated and the June 30, 1998 fund balance is overstated in the Expendable Trust Fund by \$58,427,170 in fiscal year 1997-98.

In our opinion, except for the effects of recording investment income and a cash transfer not being recorded as described in the preceding paragraphs, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances/property held in trust of the Department of Revenue for the two fiscal years ended June 30, 1997 and 1998, in conformity with the basis of accounting described in note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA
Deputy Legislative Auditor

February 12, 1999

DEPARTMENT OF REVENUE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Agency Fund	Expendable Trust Fund	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1997	\$ 3,741,165	\$ 7,416,586	\$ (3,020,927)	\$ 1,177,868	\$ 5,340,650	\$ 0	\$ 152,663	\$ 571,837,196
PROPERTY HELD IN TRUST: July 1, 1997						\$ 38,283		
ADDITIONS								
Budgeted Revenues & Transfers-In	864,343,147 ⁴	99,606,219	788,518	24,076,488	100,374,400		58,233,310 ⁵	97,026,176
Nonbudgeted Revenues & Transfers-In	(83,412)	1,635,935		255,047	(382,855)		89,824	17,463,881
Prior Year Revenues & Transfers-In Adjustments	104,531	(2,329,234)	(6,388)	(73,185)				(342,896)
Cash Transfers In (Out) ¹	(841,967,915) ⁴	(57,522,235)	2,407,327	(6,361,235)	(51,848,305)			(3,649,985)
Direct Entries to Fund Balance	337,817	(337,817)			(5,123)			13,143,631 ²
Additions to Property Held in Trust						306,353		
Total Additions	22,734,168	41,052,868	3,189,457	17,897,115	48,138,117	306,353	58,323,134	123,640,807
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	38,769,873	41,808,977		3,606,260	48,071,620		23,672	69,457,875 ³
Nonbudgeted Expenditures & Transfers-Out					(3,737)			
Prior Year Expenditures & Transfers-Out Adjustments	(112,140)	(2,079,673)			(11,077)			
Total Reductions	38,657,733	39,729,304	0	3,606,260	48,056,806		23,672	69,457,875
FUND BALANCE: June 30, 1998	\$ (12,182,400)	\$ 8,740,150	\$ 168,530	\$ 15,468,723	\$ 5,421,961	\$ 0	\$ 58,452,125	\$ 626,020,128
PROPERTY HELD IN TRUST: June 30, 1998						\$ 344,636		

¹ See note 3 on page A-13.

² See note 5 on page A-14.

³ See note 6 on page A-14.

⁴ See note 8 on page A-15.

⁵ See note 9 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF REVENUE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

	General Fund	Special Revenue Fund,	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Agency Fund,	Expendable Trust Fund,	Nonexpendable Trust Fund
FUND BALANCE: July 1, 1996	\$ 12,124,835	\$ 9,524,974	\$ (2,479,519)	\$ 1,065,158	\$ 5,278,932	\$ 0	\$ 91,745	\$ 559,250,118
PROPERTY HELD IN TRUST: July 1, 1996		\$ 43,950,949				\$ 13,960,554		
ADDITIONS								
Budgeted Revenues & Transfers-In	782,601,352	97,169,334	53,416,848 ⁴	6,863,864	95,274,824		1,328,521	71,306,036
Nonbudgeted Revenues & Transfers-In	427,874	4,370,171	23,185		227,608			19,580,227
Prior Year Revenues & Transfers-In Adjustments	(760,820)	944,157	29,269	48,726	(79,428)			234,278
Cash Transfers In (Out) ¹	(749,174,919)	(50,893,304)	(54,010,710) ⁴	(6,799,880)	(49,228,258)			(10,148,913)
Direct Entries to Fund Balance								
Additions to Property Held in Trust		6,967,042				2,093,466		
Total Additions	33,093,487	58,557,400	(541,408)	112,710	46,194,746	2,093,466	1,328,521	80,971,628
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	41,425,917	3,059,028			45,942,742		1,267,604	68,384,550 ²
Nonbudgeted Expenditures & Transfers-Out	12,448	49,573,256			(32,392)			
Prior Year Expenditures & Transfers-Out Adjustments	38,792	1,066,462			222,678			
Reductions to Property Held in Trust		50,917,991				16,015,737 ⁶		
Total Reductions	41,477,157	104,616,737	0	0	46,133,028	16,015,737	1,267,604	68,384,550
FUND BALANCE: June 30, 1997	\$ 3,741,165	\$ 7,416,586	\$ (3,020,927)	\$ 1,177,868	\$ 5,340,650	\$ 0	\$ 152,662	\$ 571,837,196
PROPERTY HELD IN TRUST: June 30, 1997						\$ 38,283		

¹ See note 3 on page A-13.
² See note 6 on page A-14.
³ See note 1 on page A-11.
⁴ See note 8 on page A-15.
⁵ See note 10 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
Licenses and Permits								
Taxes	\$ 6,213,547	\$ 419,976			\$ 1,844,453		\$	\$ 8,477,976
Charges for Services	778,805,010	71,638,930	\$ 782,130 ¹	\$ 6,203,303	62,545,052		\$	938,623,347
Investment Earnings	278,370	4,203,422			5,496			4,487,288
Fines and Forfeits		253,706		255,047				78,543,010
Federal Indirect Cost Recoveries		364,927			75,298			440,225
Sale of Documents, Merchandise and Property	15,452				35,503,074			15,452
Contributions and Premiums		4,414,281				\$ 58,233,310 ²		35,503,074
Miscellaneous	11,186				18,172			62,647,591
Grants, Contracts, Donations and Abandonments	1,196,894	127,498						29,358
Other Financing Sources	54,793,694	15,105,455		17,800,000 ³	89,824			1,414,216
Federal	23,050,113	2,384,725						105,163,131
Total Revenues & Transfers-In	864,364,266	98,912,920	782,130	24,258,350	99,991,545	58,323,134		25,434,838
Less								1,260,779,506
Nonbudgeted Revenues & Transfers-In	(83,412)	1,635,935						
Prior Year Revenues & Transfers-In Adjustments	104,531	(2,329,234)			(382,855)			18,978,420
Actual Budgeted Revenues & Transfers-In	864,343,147	99,606,219	(6,388)	255,047		89,824		(2,647,172)
Estimated Revenues & Transfers-In	878,716,488	104,039,452	788,518	24,076,488	100,374,400	58,233,310		1,244,448,258
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (14,373,341)	\$ (4,433,233)	\$ 873,000	24,461,000	102,792,000	59,000,000		1,241,874,947
			\$ (84,482)	\$ (384,512)	\$ (2,417,600)	\$ 233,310	\$	\$ 2,573,311
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS								
Licenses and Permits	\$ (1,938,827)	\$ (453,024)			\$ (345,547)		\$	\$ (2,737,398)
Taxes	(12,175,989)	(5,666,646)		(384,512)	2,003,857		\$	(18,408,853)
Charges for Services	13,489	244,829			(1,505)			256,813
Investment Earnings		(67,043)						26,067,207
Fines and Forfeits	(100)	104,927			35,298			140,125
Federal Indirect Cost Recoveries								0
Sale of Documents, Merchandise and Property	(1,000)				(4,109,703)			(4,110,703)
Contributions and Premiums		14,281				\$ 233,310		247,591
Miscellaneous								0
Grants, Contracts, Donations and Abandonments	113,494	6,406						119,900
Other Financing Sources	(1,860,358)	39,673						(1,820,685)
Federal	1,475,950	1,343,364						2,819,314
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (14,373,341)	\$ (4,433,233)	\$ (84,482)	\$ (384,512)	\$ (2,417,600)	\$ 233,310	\$	\$ 2,573,311

¹ See note 8 on page A-15

² See note 9 on page A-15

³ See note 11 on page A-16

⁴ See note 12 on page A-16

This schedule is prepared from the Statewide Budgeting and Accounting System
Additional information is provided in the notes to the financial schedules beginning on page A-11

DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Enterprise Fund	Expendable Trust Fund	Nonexpendable Trust Fund	Total
Taxes	\$ 6,577,854	\$ 180,778	\$ 53,469,302 ¹	\$ 6,912,590	\$ 1,568,885	\$ 0	\$ 21,225,274	\$ 8,327,517
Charges for Services	705,132,475	86,549,270			59,332,044			932,620,955
Investment Earnings	5,811	2,495,478			6,445			2,507,734
Fines and Forfeits	2,556	249,108			43,218			50,574,494
Federal Indirect Cost Recoveries	15,483							45,774
Miscellaneous	7,250							15,483
Grants, Contracts, Donations and Abandonments	(900)	113,533			34,468,391			34,468,391
Other Financing Sources	52,094,700	12,659,236			4,021			11,271
Federal	18,433,177	236,259				1,136,609		1,249,242
Total Revenues & Transfers-In	782,268,406	102,483,662	53,469,302	6,912,590	95,423,004	1,328,521	19,569,881	84,515,729
Less: Nonbudgeted Revenues & Transfers-In	427,874	4,370,171	23,185		227,608			18,669,436
Prior Year Revenues & Transfers-In Adjustments	(760,820)	944,157	29,269		(79,428)			1,133,006,026
Actual Budgeted Revenues & Transfers-In	782,601,352	97,169,334	53,416,848	48,726	95,274,824	0		25,957,586
Estimated Revenues & Transfers-In	771,481,505	92,320,440	52,713,000	6,863,864	99,715,000	0		1,106,632,258
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 11,119,847	\$ 4,848,894	\$ 703,848	\$ (5,136)	\$ (4,440,176)	\$ 0	\$ (3,506,969)	\$ 1,097,911,950
								\$ 8,720,308

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER)

ESTIMATED BY CLASS

Licenses and Permits	\$ 575,529	\$ 30,779	\$ (582,115)	\$ (5,136)	\$ (582,115)	\$ 0	\$ (1,241,350)	\$ 24,193
Taxes	21,016,410	2,941,612	703,848		1,633,177			25,048,561
Charges for Services	476	663,269			(555)			663,190
Investment Earnings								(2,265,619)
Fines and Forfeits	(498)				3,218			2,720
Sale of Documents, Merchandise and Property	(1,000)	(2,737)			(5,493,901)			(5,494,901)
Grants, Contracts, Donations and Abandonments	(1)	1,222,987						(2,738)
Other Financing Sources	(6,423,232)	(7,016)						(5,200,245)
Federal	(4,047,837)							(4,054,853)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 11,119,847	\$ 4,848,894	\$ 703,848	\$ (5,136)	\$ (4,440,176)	\$ 0	\$ (3,506,969)	\$ 8,720,308

¹ See note 8 on page A-15.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules beginning on page A-11.

PROGRAM EXPENDITURES

Personal Services
Salaries
Other Compensation
Employee Benefits
Personal Services-Other
Total

Operating Expenses
Other Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Goods Purchased For
Total

Equipment & Intangible
Equipment
Intangible Assets
Total

Capital Outlay
Buildings
Total

Local Assistance
From State Sources
Total

Benefits & Claims
From State Sources
Total

Transfers
Accounting Entity Transfer
Total

Debt Service
Bonds
Loans
Installment Purchase
Total

Total Program Expenditures

PROGRAM EXPENDITURES

General Fund
Special Revenue Funds
Capital Projects Funds
Enterprise Fund
Expendable Trust Funds
Nonexpendable Trust Funds
Total Program Expenditures

Less: Nonbudgeted
Prior Year Expenditures
Actual Budgeted Expenditures
Budget Authority
Unspent Budget Authority

UNSPENT BUDGET AUTHORITY

General Fund
Special Revenue Funds
Capital Projects Funds
Enterprise Fund
Unspent Budget Authority

¹ See note 7 on page 11

This schedule is prepared in accordance with the requirements of the
Additional information is provided on page 12

DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998

	Directors Office	Information Technology	Resource Management	Customer Service & Information Processing	Corporation Tax ¹	Compliance, Valuation & Resolution	Total
PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT							
Personal Services							
Salaries	\$ 1,098,327	\$ 982,462	\$ 881,615	\$ 2,265,940	\$ (6,978)	\$ 10,844,983	\$ 16,066,349
Other Compensation	50						50
Employee Benefits	216,606	300,329	275,235	638,012	6,978	3,366,974	4,804,134
Personal Services-Other			(21,217)				(21,217)
Total	<u>1,314,983</u>	<u>1,282,791</u>	<u>1,135,633</u>	<u>2,903,952</u>	<u>0</u>	<u>14,211,957</u>	<u>20,849,316</u>
Operating Expenses							
Other Services	4,394,065	317,019	150,231	1,111,426	10	1,607,619	7,580,370
Supplies & Materials	256,553	108,217	47,669	167,550		923,496	1,503,485
Communications	46,634	17,281	48,170	337,656		667,519	1,117,260
Travel	35,952	17,303	4,703	23,587		379,772	461,317
Rent	111,388	25,268	18,544	86,007		413,162	654,369
Utilities	2		46,282	71		1,015	47,370
Repair & Maintenance	7,370	11,504	39,932	33,042	6,032	162,626	260,506
Other Expenses	21,740	37,564	23,348	14,575	(275)	98,273	195,225
Goods Purchased For Resale			29,265,026				29,265,026
Total	<u>4,873,704</u>	<u>534,156</u>	<u>29,643,905</u>	<u>1,773,914</u>	<u>5,767</u>	<u>4,253,482</u>	<u>41,084,928</u>
Equipment & Intangible Assets							
Equipment	26,864	17,236	72,548	146,303	(4,310)	(19,123)	239,518
Intangible Assets						71,000	71,000
Total	<u>26,864</u>	<u>17,236</u>	<u>72,548</u>	<u>146,303</u>	<u>(4,310)</u>	<u>51,877</u>	<u>310,518</u>
Capital Outlay							
Buildings			3,144				3,144
Total			<u>3,144</u>				<u>3,144</u>
Local Assistance							
From State Sources		(387)	3,876,645		(2,078,872)	48,056,284	49,853,670
Total		<u>(387)</u>	<u>3,876,645</u>		<u>(2,078,872)</u>	<u>48,056,284</u>	<u>49,853,670</u>
Benefits & Claims							
From State Sources						8,718	8,718
Total						<u>8,718</u>	<u>8,718</u>
Transfers							
Accounting Entity Transfers			69,592,632	23,672		17,775,921	87,392,225
Total			<u>69,592,632</u>	<u>23,672</u>		<u>17,775,921</u>	<u>87,392,225</u>
Debt Service							
Bonds	3,531						3,531
Loans		(1,540)	2,060	1,534		7,541	9,595
Installment Purchases	5,568					10,436	16,004
Total	<u>9,099</u>	<u>(1,540)</u>	<u>2,060</u>	<u>1,534</u>		<u>17,977</u>	<u>29,130</u>
Total Program Expenditures & Transfers-Out	\$ <u>6,224,650</u>	\$ <u>1,832,256</u>	\$ <u>104,326,567</u>	\$ <u>4,849,375</u>	\$ <u>(2,077,415)</u>	\$ <u>84,376,216</u>	\$ <u>199,531,649</u>
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 2,165,705	\$ 1,682,784	\$ 710,838	\$ 3,834,321	\$ 1,457	\$ 30,262,628	\$ 38,657,733
Special Revenue Fund	452,685	149,472	3,876,969	991,383	(2,078,872)	36,337,667	39,729,304
Capital Projects Fund	3,606,260						3,606,260
Enterprise Fund			48,056,806				48,056,806
Expendable Trust Fund				23,671			23,671
Nonexpendable Trust Fund			51,681,954			17,775,921	69,457,875
Total Program Expenditures & Transfers-Out	<u>6,224,650</u>	<u>1,832,256</u>	<u>104,326,567</u>	<u>4,849,375</u>	<u>(2,077,415)</u>	<u>84,376,216</u>	<u>199,531,649</u>
Less Nonbudgeted Expenditures & Transfers-Out			51,678,217	23,671		17,775,921	69,477,809
Prior Year Expenditures & Transfers-Out Adjustments	1,399	(6,807)	(11,078)	(891)	(2,077,415)	(108,096)	(2,202,888)
Actual Budgeted Expenditures & Transfers-Out	<u>6,223,251</u>	<u>1,839,063</u>	<u>52,659,428</u>	<u>4,826,595</u>	<u>0</u>	<u>66,708,391</u>	<u>132,256,728</u>
Budget Authority	20,487,585	1,855,212	54,886,475	5,540,046	0	84,999,382	167,768,700
Unspent Budget Authority	\$ <u>14,264,334</u>	\$ <u>16,149</u>	\$ <u>2,227,047</u>	\$ <u>713,451</u>	\$ <u>0</u>	\$ <u>18,290,991</u>	\$ <u>35,511,972</u>
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 35,311	\$ 15,345	\$ 9,400	\$ 7,198		\$ 67,204	\$ 134,458
Special Revenue Fund	35,283	804	116,030	706,253		18,223,787	19,082,157
Capital Projects Fund	14,193,740						14,193,740
Enterprise Fund			2,101,617				2,101,617
Unspent Budget Authority	\$ <u>14,264,334</u>	\$ <u>16,149</u>	\$ <u>2,227,047</u>	\$ <u>713,451</u>	\$ <u>0</u>	\$ <u>18,290,991</u>	\$ <u>35,511,972</u>

¹ See note 7 on page A-15

PROGRAM EXPENDITURE

Personal Services
Salaries
Hourly Wages
Other Compensation
Employee Benefits
Personal Services-Other
Total

Operating Expenses
Other Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair & Maintenance
Other Expenses
Goods Purchased For Resale
Total

Equipment & Intangible Assets
Equipment
Intangible Assets
Installment Purchases - Equipment
Total

Capital Outlay
Buildings
Total

Local Assistance
From State Sources
Total

Benefits & Claims
From State Sources
Total

Transfers
Accounting Entity Transfers
Total

Debt Service
Loans
Installment Purchases
Total

Total Program Expenditure

PROGRAM EXPENDITURE

General Fund
Special Revenue Fund
Enterprise Fund
Expendable Trust Fund
Nonexpendable Trust Fund
Total Program Expenditure

Less: Nonbudgeted Expenditures
Prior Year Expenditures
Actual Budgeted Expenditures
Budget Authority
Unspent Budget Authority

UNSPENT BUDGET AUTHORITY

General Fund
Special Revenue Fund
Enterprise Fund
Unspent Budget Authority

This schedule is prepared in accordance with the provisions of the
Additional information is provided in the notes to the financial statements.

DEPARTMENT OF REVENUE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 1997

PROGRAM EXPENDITURES & TRANSFERS-OUT BY OBJECT	Directors Office	Operations Division	Liquor Division	Income Tax	Corporation Tax	Property Valuation	Total
Personal Services							
Salaries	\$ 737,441	\$ 1,662,362	\$ 656,532	\$ 2,585,298	\$ 867,618	\$ 8,863,890	\$ 15,373,141
Hourly Wages						69	69
Other Compensation			15,341				15,341
Employee Benefits	146,107	435,675	448,555	706,322	215,236	2,488,153	4,440,048
Personal Services-Other			15,865				15,865
Total	883,548	2,098,037	1,136,293	3,291,620	1,082,854	11,352,112	19,844,464
Operating Expenses							
Other Services	133,544	106,844	262,818	1,029,542	225,661	1,091,259	2,849,668
Supplies & Materials	35,924	79,784	33,779	88,411	16,863	511,317	766,078
Communications	22,662	23,650	53,178	374,751	33,551	385,472	893,264
Travel	7,344	13,588	10,011	22,569	141,801	158,125	353,438
Rent	28,186	61,550	370	119,425	29,001	174,606	413,138
Utilities			48,714			676	49,390
Repair & Maintenance	9,846	75,172	17,031	32,716	9,968	231,106	375,839
Other Expenses	13,810	36,401	68,719	22,497	29,689	30,287	201,403
Goods Purchased For Resale			27,856,605				27,856,605
Total	251,316	396,989	28,351,225	1,689,911	486,534	2,582,848	33,758,823
Equipment & Intangible Assets							
Equipment	40,784	89,939	18,134	129,804	95,325	199,314	573,300
Intangible Assets	5,208	5,425					10,633
Installment Purchases - Equipment	14,500					33,431	47,931
Total	60,492	95,364	18,134	129,804	95,325	232,745	631,864
Capital Outlay							
Buildings			28,261				28,261
Total			28,261				28,261
Local Assistance							
From State Sources		2,807,295	1,343,161	198,366	47,808,941	12,843,383	65,001,146
Total		2,807,295	1,343,161	198,366	47,808,941	12,843,383	65,001,146
Benefits & Claims							
From State Sources				(129)		5,001,076	5,000,947
Total				(129)		5,001,076	5,000,947
Transfers							
Accounting Entry Transfers		49,529,026	15,169,264	1,267,604	20,669,865		86,635,759
Total		49,529,026	15,169,264	1,267,604	20,669,865		86,635,759
Debt Service							
Loans		7,729		3,253		19,643	30,625
Installment Purchases	8,816					20,380	29,196
Total	8,816	7,729		3,253		40,023	59,821
Total Program Expenditures & Transfers-Out	\$ 1,204,172	\$ 54,934,440	\$ 46,046,338	\$ 6,580,429	\$ 70,143,519	\$ 32,052,187	\$ 210,961,085
PROGRAM EXPENDITURES & TRANSFERS-OUT BY FUND							
General Fund	\$ 1,117,316	\$ 2,215,882	\$ 262,181	\$ 4,464,510	\$ 1,397,394	\$ 32,019,874	\$ 41,477,157
Special Revenue Fund		2,927,518		848,315	49,890,600	32,313	53,698,746
Enterprise Fund	86,856	262,015	45,784,157				46,133,028
Expendable Trust Fund				1,267,604	0		1,267,604
Nonexpendable Trust Fund		49,529,025			18,855,525		68,384,550
Total Program Expenditures & Transfers-Out	1,204,172	54,934,440	46,046,338	6,580,429	70,143,519	32,052,187	210,961,085
Less Nonbudgeted Expenditures & Transfers-Out		51,022,765	(32,392)	1,267,604	66,935,042	12,448	119,205,467
Prior Year Expenditures & Transfers-Out Adjustments	14,817	(19,324)	222,678	622	1,085,813	23,326	1,327,932
Actual Budgeted Expenditures & Transfers-Out	1,189,355	3,930,999	45,856,052	5,312,203	2,122,664	32,016,413	90,427,686
Budget Authority	1,190,866	3,937,377	50,128,811	5,437,769	2,135,775	36,793,259	99,623,857
Unspent Budget Authority	\$ 1,511	\$ 6,378	\$ 4,272,759	\$ 125,566	\$ 13,111	\$ 4,776,846	\$ 9,196,171
UNSPENT BUDGET AUTHORITY BY FUND							
General Fund	\$ 1,511	\$ 1,163	\$ 2,047	\$ 121,544	\$ 4,170	\$ 4,769,159	\$ 4,899,594
Special Revenue Fund		5,215		4,022	8,941	7,687	25,865
Enterprise Fund			4,270,712				4,270,712
Unspent Budget Authority	\$ 1,511	\$ 6,378	\$ 4,272,759	\$ 125,566	\$ 13,111	\$ 4,776,846	\$ 9,196,171

This schedule is prepared from the Statewide Budgeting and Accounting System.
Additional information is provided in the notes to the financial schedules beginning on page A-11

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 1998

1. Summary of Significant Accounting Policies

Basis of Accounting

The department uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental, Expendable Trust, and Agency Funds. In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary and Nonexpendable Trust Funds. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned when measurable and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the Statewide Budgeting and Accounting System (SBAS) without adjustment, although certain Agency Funds and Expendable Trust Funds have been reclassified to the Special Revenue Fund for financial schedule presentation. This activity is primarily related to corporation tax distributions to financial institutions and oil and gas severance tax distributions to local governments. This activity is now properly classified on SBAS in the Special Revenue Fund. The

Notes to the Financial Schedules

amounts reclassified by financial schedule line item include (in thousands):

<u>Financial Schedule Line</u>	<u>FY 97</u>	<u>FY 98</u>
Beginning Property Held in Trust	\$43,951	
Budgeted Revenues & Transfers-In	44,007	
Nonbudgeted Revenues & Transfers-In	3,752	
Prior Year Revenue & Transfers-In Adjustments	(4)	\$(2,079)
Addition to Property Held in Trust	6,967	
Nonbudgeted Expenditures & Transfers-Out	47,759	
Prior Year Expenditures & Transfers-Out Adjustments	(4)	(2,079)
Reductions to Property Held in Trust	50,918	

The additions and reductions to property held in trust in the Special Revenue Fund relate to the liquidation of accounts payable and property held in trust included in the July 1, 1996 beginning property held in trust balance.

Governmental Funds

General Fund - to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes.

Debt Service Fund - to account for accumulated resources for the payment of General Long-Term Debt Principal and Interest. The department uses this fund for the Long Range Building Program and the Renewable Resource Bond Funds.

Capital Projects Fund - to account for resources used for purchase or construction of major capital facilities. The department uses this fund for the Long Range Building Program, the new integrated tax system, and the revenue processing center.

Notes to the Financial Schedules

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the legislature intends that the department finance or recover costs primarily through user charges; or (b) where the legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The department's Enterprise Funds contain the liquor division and the old fund liability tax collections.

Fiduciary Funds

Trust Funds - to account for assets held by the State in a trustee capacity. The department's Expendable Trust Fund is used to account for unclaimed and escheated property and the Unemployment Insurance Program. The department's Nonexpendable Trust Funds include the Permanent Coal Trust Fund, the Cultural Trust, the Coal Severance Tax Income and Bond Funds, the Resource Indemnity Trust Fund, the Common School Trust Fund, and the Treasure State Endowment Fund.

Agency Funds - to account for assets held by the State as an agent for individuals, private organizations, other governments or other funds.

General Fund Balance

Each agency does not have a separate General Fund since its only authority is to pay obligations from the statewide General Fund within its appropriation limits. A negative fund balance in the General Fund does not indicate overspent appropriation authority. Each agency records cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets the agency has placed in the fund, resulting in a negative ending General Fund balance for the fiscal year ended June 30, 1998. The department's total assets placed in the fund exceed outstanding liabilities, resulting in a positive ending General Fund balance for the fiscal year ended June 30, 1997.

Cash Transfers

The Department of Revenue collects revenue for accounts administered by other state agencies. To move the cash collected to the administering, or spending agency, and to prevent recording revenues and expenditures twice, a cash transfer out is recorded on the department's records and a cash transfer in is recorded on the administering agency's record. Examples of cash transfers include

Notes to the Financial Schedules

statutory transfers of the accommodations tax, 9-1-1 emergency phone program, employment security account, cigarette tax, treasure state endowment, public service commission, university millage, and reclamation and development.

4. Gain Contingencies

Certain natural resource and corporation tax assessments are not reported on the department's financial schedules because they are being protested administratively. As of June 30, 1998, the following assessments (by fund type) were outstanding (in thousands):

<u>Taxes</u>	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Nonexpendable Trust</u>
Corporation	\$4,953			
Coal Severance	9,738	\$3,560	\$4,994	\$20,275
Oil and Gas	8,299			
Resource Indemnity		531		451
Totals	<u>\$22,990</u>	<u>\$4,091</u>	<u>\$4,994</u>	<u>\$20,726</u>

Collectibility of these amounts is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to corporation tax assessments is distributed 100 percent to the General Fund.

5. Direct Entries to Fund Balance

The majority of direct entries to fund balance in the Nonexpendable Trust Fund for fiscal year 1997-98 relates to the approximately \$13 million increase in market value of investments that occurred prior to fiscal year 1997-98 due to implementation of Governmental and Accounting Standards Board #31 in fiscal year 1997-98.

6. Nonbudgeted Activity

The majority of the nonbudgeted expenditures & transfers-out in the Nonexpendable Trust Fund are transfers to the Permanent Coal Trust Account and the Coal Severance Tax Bond Fund.

Notes to the Financial Schedules

7. **Reorganization**
- In May 1997, the department began a comprehensive reorganization designed to significantly improve the manner in which the department conducts its business. The fiscal year 1997-98 financial activity was restated on the Statewide Budgeting and Accounting System to reflect the new organization. The department's programs as shown on the Schedule of Total Expenditures & Transfers-Out for fiscal year 1997-98 are no longer by tax type as the fiscal year 1996-97 Schedule of Expenditures & Transfers-Out reflects. The new organization is instead organized around common business practices. As a result, the fiscal year 1996-97 and 1997-98 Schedules of Expenditures & Transfers-Out are not comparable between years by program. Included on the fiscal year 1997-98 Schedule of Expenditures & Transfers-Out is a prior year activity related to the Corporation Tax Program which no longer exists.
8. **Debt Service Fund Revenue**
- Prior to fiscal year 1997-98, 10.5 percent of various taxes, including income, cigarette, and corporation were required by section 15-1-501, MCA, to be deposited to the Long-Range Building Debt Service Account. This law was amended by Chapter 422, Laws of 1997. Currently, all proceeds of the taxes are deposited to the General Fund.
9. **Unemployment Insurance**
- Effective July 1, 1997, the unemployment insurance tax administration function moved from the Department of Labor and Industry to the Department of Revenue. The department records the collections, totaling \$58,233,310 in fiscal year 1997-98, in the Expendable Trust Fund.
10. **Agency Fund Reductions**
- The majority of reductions in the Agency Fund in fiscal year 1996-97 relate to the settlement in February 1997 of a railroad car case that was ongoing for several years.

Notes to the Financial Schedules

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| 11. | <u>Bond Proceeds</u> | During fiscal year 1997-98 the department received bond proceeds of \$17,800,000 related to the development of an integrated tax system and the revenue processing center. |
| 12. | <u>Investment Earnings</u> | The majority of the \$26,134,250 of investment earnings over estimated revenues recorded in the Nonexpendable Trust Fund in fiscal year 1997-98, relate to the implementation of Governmental Accounting Standards Board #31 beginning fiscal year 1997-98. This standard requires the state to recognize as income (or negative income) unrealized market gains and losses on the financial records. |
| 13. | <u>Subsequent Events</u> | On September 16, 1998, the State Fund Board of Directors recommended to the Budget Director that the Old Fund Liability Tax could end on December 31, 1998. Subsequently, the Budget Director in compliance with section 39-71-2505(7), MCA, communicated to the department director that collection of the Old Fund Liability Tax could cease effective December 31, 1998. Collections of this tax were approximately \$50 million each year. |

Agency Response



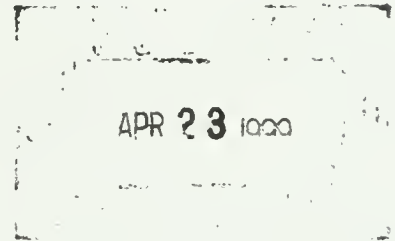
Director's Office
Sam W. Mitchell Building

Montana Department of
REVENUE

P. O. Box 5805
Helena, Montana 59604-5805

April 23, 1999

Scott Seacat, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
P.O. Box 201705
Helena, MT 59620-1705



Re: Financial-Compliance Audit for Fiscal Years 1996-97 and 1997-98

Dear Mr. Seacat:

Thank you for the opportunity to provide the Department of Revenue's response to the audit recommendations contained in your report.

Recommendation #1

We recommend the department establish procedures to value and tax all taxable intangible property as required by state law.

Concur: As indicated in the audit report, the 1999 Legislature considered legislation which would exempt intangible personal property from taxation. This legislation (SB 111) passed and is effective for Tax Year 1999. The department will work with the companies currently paying tax on intangible personal property and will remove the associated value from the company's total property value. In addition, the department will adopt rules to clarify how intangible personal property will be identified and valued for centrally assessed companies.

Recommendation #2

We recommend the department work with the Board of Investment's personnel to ensure all investment income from the coal severance tax income fund is recorded as required by state law.

Concur: The department has established internal procedures to ensure the investment income from the coal severance tax income fund is recorded as required by state law. The department will continue to work with the Board of Investment's personnel to ensure timely recording of income amounts.

Recommendation #3

We recommend the department reimburse the Montana Historical Society \$45,000 for the Fort Peck Interpretive Center grant.

Page B-3

Concur: The department will reimburse the Montana Historical Society \$45,000 from accommodations tax proceeds.

Although the department will comply with this recommendation, we believe the outcome of complying will result in allocating to the Montana Historical Society \$45,000 that they have no way of using. The department researched the amendment to 15-65-121, MCA, the section detailing the distribution of accommodation tax revenue, and reviewed the following:

- House Bill #5, 1997 Legislative Session
- The associated fiscal note, and
- Numerous discussions and meetings with other involved agencies.

All parties involved agreed that the manner in which the department originally distributed the accommodations tax revenue was the one that most accurately reflected the intent of the legislation.

Recommendation #4

We recommend the department record revenue accruals in compliance with state accounting policies.

Concur: When recording revenue accruals, the department will review state accounting policies to ensure the recorded revenue accruals comply.

Recommendation #5

We recommend the department follow state accounting policy concerning expenditure abatements.

Concur: The department has established procedures to evaluate the use of expenditure abatements in unusual circumstances and will ensure state accounting policies are followed in regards to expenditure abatements.

Recommendation #6

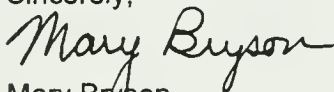
We recommend the department comply with state accounting policy related to the use of operating transfers.

Concur: The department has established procedures to ensure compliance with state accounting policies in regards to the use of operating transfers.

The department is working with the Department of Labor and Industry to ensure transfers of payments between the two departments comply with state accounting policies.

Thank you for your courtesy and for the professional work of the staff involved in the audit.

Sincerely,



Mary Bryson
Director

